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Agenda Item 3c

September 13, 2011

TO: MEMBERS OF THE AD HOC RISK MANAGEMENT COMMITTEE

- I. **SUBJECT:** Risk Exposure Reports
- II. **PROGRAM:** Enterprise
- III. **RECOMMENDATION:** Information
- IV. **ANALYSIS:**

In April 2011, the CalPERS Board of Administration approved the creation of a standing Risk Management Committee (Committee), that will assist the Board with oversight of the CalPERS risk management framework and risk exposures. To provide the Committee with a comprehensive understanding of CalPERS risks, the Office of Enterprise Risk Management (OERM) has developed a risk portfolio (Attachment 1), risk dashboard (Attachment 2), and top risk list (Attachment 3).

This risk report was developed with the input and consensus of senior management and the Executive Risk Management Committee, and outlines the significant residual risks facing CalPERS and management's planned mitigation strategies. Going forward, the OERM will continue to monitor changes to the risk portfolio, ratings, and progress on mitigation plans. Work is underway to develop quantitative risk measures and a relational database to house the assessments, allowing for real-time reports and enhanced drill-down capabilities. Updated risk reports will be provided to the Committee regularly and will be used to ensure clear risk accountability and inform management strategy.

The risk dashboard shows the overall risk profile broken down into strategic, operational, financial/reporting, ethics/legal/compliance, and investment categories. Under each of these areas, several subcategories represent the aggregate rating of many underlying specific risks. The Top Risk report shows the highest risks to the enterprise and describes mitigation strategies underway, many of which are major initiatives from the 2011-12 Business Plan.

The current risk report identifies two high residual risks. These include PSR and Investment Controls and Systems. Though several mitigation strategies are in place, the risk for PSR is expected to remain high through go-live. Several mitigation strategies are underway for investment controls and systems, including the implementation of the CFO function, development of books of record

strategies, and enhancement of investment accounting policies. As a result of these mitigations, investment controls and systems risk is expected to decrease over the next three to six months. An additional seven risks rated moderate are included on the top risk list. No risks have been identified as likely to increase over the next three to six months.

The OERM continues to develop an emerging risk report identifying risks being monitored that have the potential to impact CalPERS.

V. STRATEGIC PLAN:

This item is part of the Strategic Plan, Enterprise Priority 3 – Building Internal Strength. Specifically, it supports objective 3, to institute an Enterprise Risk Management function to effectively evaluate, monitor, and manage risk across the organization.

VI. RESULTS/COSTS:

N/A

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Acting Chief Financial Officer

Attachments